



## Budget Message



## Budget Message



September 26, 2008

**The Honorable Mayor, Mayor Pro-Tem and City Council  
City of Round Rock, Texas**

Dear Mayor McGraw, Mayor Pro-Tem Clifford and Members of the Council:

Presented herewith is the City Manager's adopted operating budget for fiscal year October 1, 2008 through September 30, 2009. This document contains spending plans and revenue estimates for the General Fund, the Debt Service Fund, the Water/Wastewater Utility Fund and the Special Revenue Funds.

The total FY 2008-09 adopted operating budget is \$134,854,343. This figure includes \$86,125,615 for the General Fund, \$13,039,874 for the Debt Service Fund and \$35,688,854 for the Water/Wastewater Utility Fund.

Spending plans and revenue estimates are provided for Special Revenue Funds with expenditures as follows: \$2,325,690 for the Hotel Occupancy Tax Fund, \$406,132 for the Parks Improvement & Acquisitions Fund, \$112,460 for the Municipal Court Fund, \$3,000 for the Library Fund and \$250,000 for the Tree Replacement Fund.

Following the City's Strategic Plan (provided below), population projections, departmental operating plans and specific guidelines issued by the City Manager, the operating departments developed the basic spending plan contained in this document. The spending plan provides funding for basic services, critical needs, equipment replacement, facility upgrades and expanded programs as discussed on the following pages.

The City's operating departments have continued the development of two-year budgets this year in an effort to identify the impact of current year programs and commitments on the future. The second year budget is not formally adopted in the budget process but is presented as an aid to decision making. The second year presentation (2009-2010 projected budget) reflects only the extended cost of the programs and operating commitments, which are adopted for 2008-2009.

As illustrated in the Budget Summary section (please see the **Budget Summaries Tab**), this budget plan adheres to the City's financial policies and preserves the City's strong financial position while providing excellent levels of service.

### Document Organization and Presentation

This budget document is intended to give the reader a comprehensive view of funding for the City's day-to-day operations, scheduled capital improvement expenditures and principal and interest payments for outstanding long-term debt and capital leases. The operations are organized into programs of service or operating departments to give the public a clear idea of how resources are allocated.

The **City Profile Tab** presents an informative overview of Round Rock. A list of Council members, an organizational chart, location and a history of the City is provided along with charts and graphs illustrating historical trends for important operating influences such as building activity, sales tax collections, and taxable property values.

The **Budget Summaries Tab** includes a summary of the revenue and expenditures for each operating fund mentioned above. Also illustrated is the effect this budget has on the fund balance or working capital for each fund.

The **Revenue Estimates Tab** contains line item detail for all operating revenue, including previous year comparisons. Reasons for changes in major revenue sources and major revenue trends are discussed later in this budget message. The Footnotes section of the Appendix Tab also has brief information about individual revenue line items.

The **General Fund Expenditures Tab** provides a program of services for each operating department with prior year actual and future year comparisons. Additionally, an organizational chart is provided for each department along with highlights of prior year accomplishments and significant changes planned for the upcoming year. Generally, measures of demand, input, output, efficiency, effectiveness, and staffing levels are also provided, along with key departmental goals. A similar presentation is provided for the Water/Wastewater Utility operations under the **Water/Wastewater Utility Fund Expenditures Tab**.

The **Debt Service Funds Expenditures Tab** provides a summary of the annual principal and interest payments for all outstanding bonded debt and capital leases.

Current capital improvements are summarized behind the **Capital Projects Funds Expenditures Tab**. Capital improvements are major construction projects or improvements to the City's infrastructure and have a long useful life. Typically, the improvements are funded with borrowed funds (bonds, certificates of obligation and capital leases), transfers from an operating fund and, in the case of the utility system, capital recovery fees.

The **Special Revenue Funds Expenditures Tab** provides a detailed spending plan for funds which account for proceeds of specific revenue sources that are legally restricted for certain purposes.

The **Debt Schedules Tab** provides details on outstanding debt including its purpose, amount outstanding and a payment schedule.

The **Tax Information and Levy Tab** provides a calculation of the City property tax rate along with a historical presentation of the property tax rate and a property tax and debt summary schedule.

The **Personnel Schedules Tab** contains summary information and detailed classification and compensation of City personnel. The Personnel Schedules contain all budgeted positions and correspond to the Authorized Personnel listings in each operating department.

The **Capital Outlay Detail Tab** provides a listing of all major capital purchases planned for acquisition in the General, Utility and Hotel Occupancy Tax Funds.

The **Financial Statistics Tab** provides City statistical information for the fiscal year ended September 30, 2007.

Finally, the **Appendix Tab** contains explanatory and supporting data, which serves to enhance the public's understanding of the budget process and information provided in the budget document.

## Strategic Planning of the City

The City views its planning and operations in a strategic manner. This type of planning environment encompasses making assumptions about the community's general needs for the next ten years. Planning for the Water/Wastewater Utility extends to twenty years for infrastructure needs and well beyond thirty years for water reserves. These needs are identified through citizen and customer surveys, open house forums, research into technological innovation, demographic trend analysis and observation of other factors affecting the community. Once compiled, the assessment of needs is combined with the City Council and staff view of the City's business purpose in order to articulate a vision statement. The vision statement summarizes both the fundamental purpose and the fundamental nature of our organization.

The Round Rock City Council has articulated six strategic priorities providing City departments with direction for developing departmental planning priorities. The City's Strategic Plan was then revised to reflect the goals as set forth by the Council. Goals for the City and its operating departments are then developed in relation to the City's Strategic Plan and provide a common view of where efforts and resources are to be directed and where we wish to be over the next few years. The City's vision and goals developed within the Strategic Plan are listed below and, correspondingly, the goals and related budgetary requirements for meeting these goals have been developed by each operating department.

In addition to assisting with the development of the City's Strategic Plan, each department is responsible for developing a "Strategic Budget." Strategic Budgeting is the process the City follows to link the City's Strategic Plan and individual departmental strategy and performance, to the budget.

## 10-Year Operational Plan

In the fall of 2005, the City conducted a 10-year operational analysis to determine the resources required to fund operations in future years. This analysis was conducted due in large part to continuing trends in population growth and increased funding pressures. This is especially evident in the current cost trends experienced in the public safety sector for the City and the region as a whole. These factors impact resources available for all City services.

The analysis consisted of projecting operational costs for a 10-year period incorporating the financial needs of the City's departments based on the current strategic priorities. Revenues available for operations were projected utilizing anticipated growth trends and existing financial policies. Once the financial information was compiled, public input was solicited. The goal was to develop informed consent from the public on service levels for long-term financial planning.

The focus of the exercise was on the seven (7) general fund core services, all competing for limited resources: library services, maintain order and enforce laws, provide fire response, provide emergency medical response, provide open space/park facilities, provide recreational facilities/activities, and provide urban infrastructure.

Through a series of open house forums and on-line input, approximately 600 citizens participated in the process. The results of the analysis found:

- a) The City should stay the course on levels of service;
- b) A preference for increased levels of service in public safety and maintenance of urban infrastructure;
- c) A preference for user fees to pay for services and;
- d) The City should continue to operate efficiently and aggressively implement cost controls.

The 10-Year Operational Plan results are an important planning tool in this and future budgets.

## Vision Statement for the City

Round Rock is a diverse, historic, and family-oriented community with a distinct identity as a great city in which to live, work and play. In providing a high quality of life, our city is progressive, committed to democratic ideas and concerned with the impact of today's decisions on future generations. Residents, government, and business are committed to working together to build a more vibrant community.

### Strategic Goals for the City of Round Rock, Fiscal Year 2008-2009

- Goal 1** Round Rock will retain and expand the economic base, diversify the local economy, provide greater employment opportunities and provide access to a broader range of goods and services for residents and non-residents.
- Goal 2** Round Rock will review the General Plan with emphasis on the northeast quadrant of the City to provide for educational, business, residential and retail uses.
- Goal 3** Round Rock will improve the image and appearance of the community.
- Goal 4** Round Rock will plan and facilitate the City's transportation systems, at the local and regional level, to improve traffic flow and personal mobility.
- Goal 5** Round Rock will plan and implement effective and efficient services within the City's financial capacity to meet the needs of residents, customers and employees.
- Goal 6** Round Rock will communicate openly and effectively with its citizens, employees, the media, public and private organizations and visitors.

**A detailed description of the City's Strategic Goals is in the Appendix Section.**

### Budget Priorities and Changes in Funding

The development of the budget for the 2008-2009 fiscal year is guided by the above described vision and strategic goals, prevailing economic conditions and, additionally, by the continuing need to provide basic and improved services for a growing population. Two primary priorities are addressed in this budget and those are to provide sufficient funding to adequately provide core operating services in the midst of an economic slowdown and, secondly, to maintain city services to meet the needs of a larger community.

This year, the budget is influenced by a unique combination of a general economic slowdown and continued population growth. Consequently, while the City must respond to lower sales tax revenue projections, demand for services from a growing population remains strong. In order to balance these conditions, a conservative budget strategy was utilized. New or expanded programs will be considered during the fiscal year if local economic conditions will support them. Generally, the City must continue to meet the demands of a larger day time population created by steady job growth, growing commercial/industrial, retail and healthcare sectors and a larger residential population. Operating departments have proposed funding requests to meet these needs.

While, as mentioned above, population growth has been a factor in the City's operations and budget development, the speed of the growth has also influenced this budget plan. For the past several years, Williamson County, in which Round Rock is the largest city, has been one of the fastest growing counties in the State of Texas. These facts create substantial demands on city services and infrastructure, which must be met within a narrow time frame.

An underlying budgetary influence is the City's business model as approximately 57% of General Fund revenue is provided by sales tax. A half-cent component of the two-cent local sales tax rate exists for the sole purpose of reducing the property tax rate. The result is a heavy reliance upon the sales tax as a revenue source and reduced reliance upon the property tax. The sales tax is a less stable revenue source than the property tax but provides more discretion to the taxpayer. Because of this revenue makeup, the City tends to carry higher fund balances, estimate sales tax revenue conservatively and introduce new programs somewhat more cautiously until projected revenue levels are established. The City is also more attentive to the health of its economy because of the reliance upon commerce to produce the sales tax. These issues are discussed more fully in the following pages.

## Budget Development Process

The City's adopted budget is a complex document and represents the culmination of months of preparation and discussion among the operating departments regarding the best ways to provide services to the community at the greatest value. This budget was developed consistent with the City's high performing philosophy which strives to simultaneously deliver high product and service quality, outstanding customer value and sound financial performance. Specifically, the process this year began with a City Council work session to discuss fiscal policy and economic outlook. The City Manager, Assistant City Manager/Chief Financial Officer and Finance Director met to refine operating guidelines and soon thereafter budget files and workbooks were provided to the operating departments. In addition, the FY 2008-09 adopted budget was developed under guidelines established by the City's Financial Management Policy adopted by the City Council in March of 2005. Specifically, the policy is designed to manage the City's growing operational reliance on sales tax generated by a single taxpayer. The policy is discussed in detail in the Sales Tax Collection section of this letter. Under these guidelines, city departments developed their draft strategic budget documents, initial operating requirements and program proposals and then worked together as a team to develop a budget proposal that fit within revenue expectations and key departmental goals.

As required by the City's Charter, the proposed budget is to be provided to the City Council by August 1. Concurrently, copies of the proposed budget and the City's strategic budget are made available to the public on the City's website and on file at the local library. The City Council considers the proposed budget and provides public hearings where public input regarding the budget programs and financial impact is heard. Further communication with the public is provided via the community cable television system, the City's website and the local newspapers. Presentations of the budget are provided in these media, along with summaries of fee changes and tax rate implications.

The budget is formally adopted by the City Council during two readings of enabling legislation at regularly scheduled Council meetings in September. The budget goes into effect on October 1.

## Budget Key Dates

<b>February</b>	City Council Work Session Budget Kickoff
<b>March-May</b>	Departmental submission of budget documents
<b>June</b>	Executive review of Proposed Budget
<b>July</b>	City Manager submits Proposed Budget to City Council Tax roll certification by chief appraiser
<b>August</b>	Publication of proposed tax rates
<b>September</b>	Proposed Budget submitted and approved by City Council (2 readings)
<b>October</b>	Budget becomes effective

### **Performance Measurement**

The City believes that it is important to not only plan for and provide adequate levels of quality service, but to also provide a means of measuring and reporting the results of our efforts. As more information is provided about how we are performing, the City Council, the public, the staff and others can determine the value of programs, where improvements could be made or where resources might be better applied.

This document attempts to provide basic measurement data regarding changes in funding for the various departments. The manner in which this measurement data is presented is a standard bar chart reflecting changes in costs and comparative expenditures per capita for the current and most recent fiscal years. The mission of every department incorporates a variety of complex operations making it difficult to provide a single or even a few statistical measures. However, the per capita funding comparisons provide a broad view of changes in level of service for the departments.

With regard to the current fiscal year ending on September 30, 2008 the City anticipates another solid performance in terms of financial condition and quality of service provided. Financial policies will be met and the City's strong cash position will be maintained. Substantial progress has been made toward goals set last year by the City and its departments and levels of service have continued to meet the demands of a growing community.

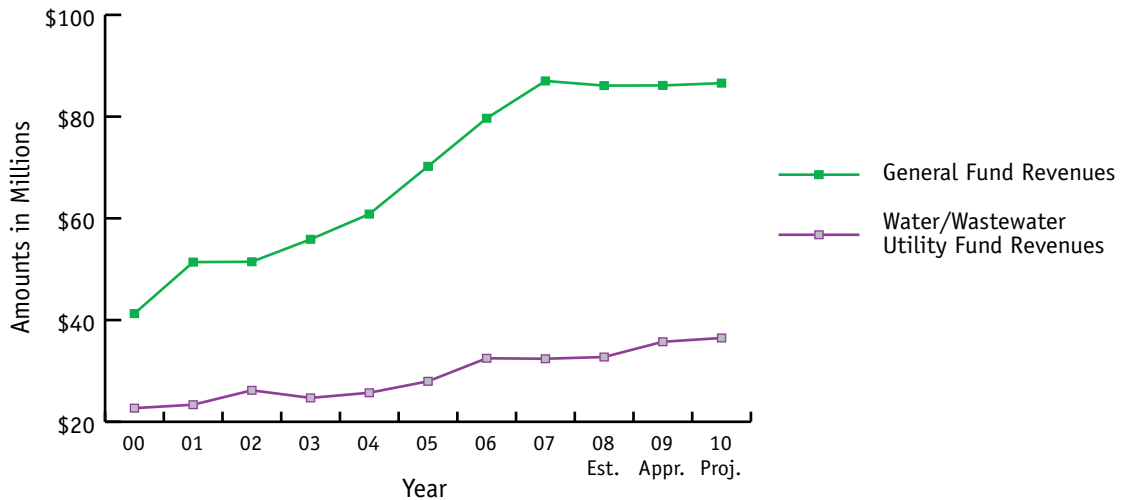
### **Trend Analysis**

The City of Round Rock utilizes a conservative strategy when projecting revenues and expenditures. Revenue and expenditure patterns are closely monitored so that adjustments to spending patterns can be implemented, if needed. The City considers many influences as presented throughout this document along with trend analysis to develop and manage the budget as the year progresses.

#### **Revenue Trends**

The City utilizes a fiscally conservative strategy when projecting revenues, as can be seen in the graph showing more modest levels of growth than actual historical amounts. Residential and commercial growth along with economic expectations, are primary drivers in estimating revenues. While in the past Round Rock has enjoyed a relatively stable upward revenue trend, recently the City has seen more moderate growth.

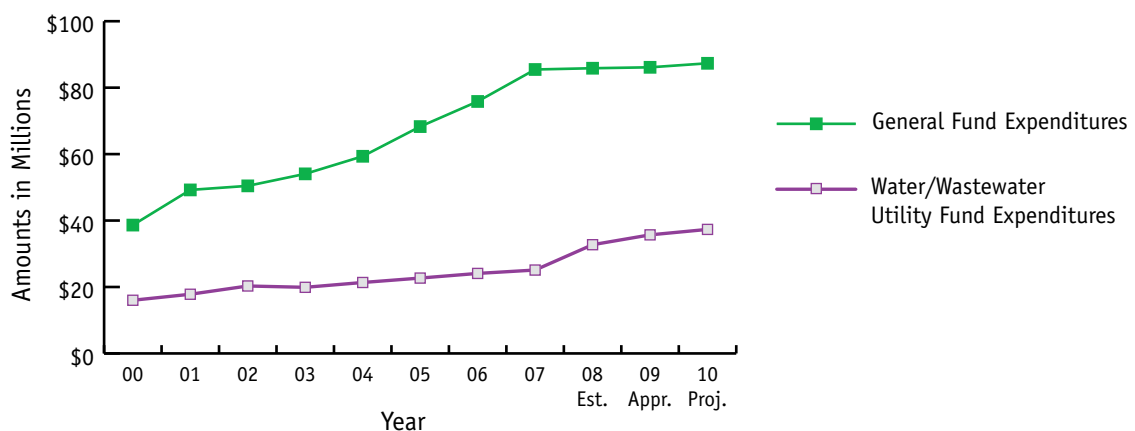
### General Fund & Water/Wastewater Utility Fund Revenues



### Expenditure Trends

Expenditure trends are projected using prior years' spending patterns along with assessing the impact of current year influences, such as, departmental objectives as they relate to the City's strategic goals. Once again, in this year's approved budget, we have applied the same fiscally conservative strategy that allows us to modify spending, if needed.

### General Fund & Water/Wastewater Utility Fund Expenditures



Note: FY 03, FY 05, FY 06, and FY 08 Water / Wastewater Utility Fund Expenditures exclude one-time \$23 million, \$12.3 million, \$5 million and \$8.5 million transfers to Construction Fund, respectively.

## Economic Outlook and Revenue Projections for Fiscal Year 2008-09

Despite the general economic slowdown mentioned earlier, current indicators show that the regional economy remains healthy and Round Rock remains fairly strong in population growth and economic activity.

In considering this spending plan, it is important to keep in mind the fact that Round Rock is located within Williamson County, which is one of the fastest growing counties in the State. Since 1990, Williamson County has soared 187% to 400,774, and the City of Round Rock has grown 6.2% on an average annual basis, thus making Round Rock one of the fastest growing cities in Texas. The Austin-Round Rock Metropolitan Statistical Area (MSA) has more than doubled in population to 1.6 million since 1990. Many of the issues Round Rock faces are regional issues such as population growth, traffic concerns, road construction and water/wastewater availability. The chart below illustrates historical and projected population growth for the area including comparison figures for Texas and the United States.

	1980	1990	2000	2009 Estimate	% Change 1980-1990	% Change 1990-2000
Round Rock	11,812	30,923	61,136	97,500	162%	98%
Williamson County	76,521	139,551	249,967	400,774	82%	79%
Austin - Round Rock MSA	585,051	781,572	1,249,763	1,598,161	34%	60%
Texas	14,229,191	16,986,510	20,851,820	23,904,380	19%	23%
United States	226,545,805	248,709,873	281,421,906	301,621,157	10%	13%

Source: U.S. Census Bureau & entity estimates

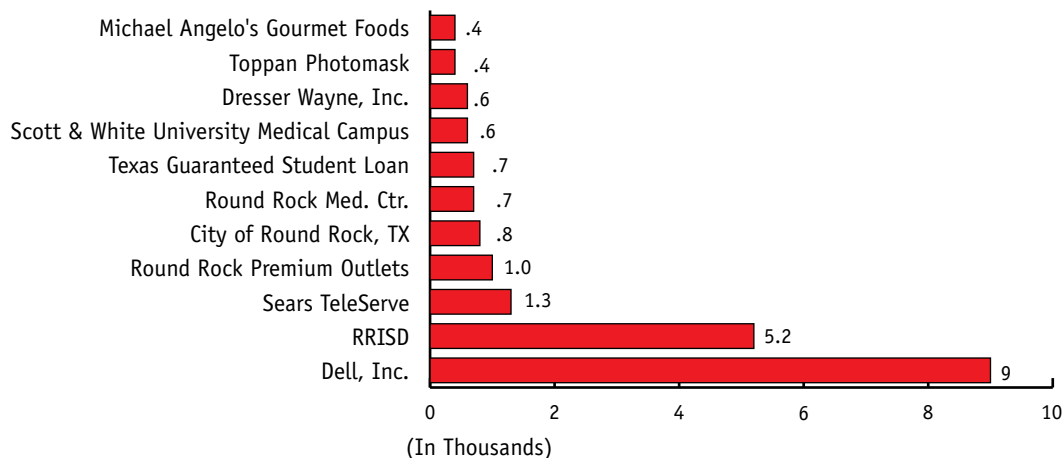
The adopted budget reflects continued growth in and around the City, even with the slowing national building trend. Modest growth in building activity is expected, fueled by continued in-migration to the community while job creation will also continue its healthy growth trends. The current unemployment rate in Round Rock is 3.3% and remains lower than the Austin metro and statewide rates of 3.7% and 4.3%, respectively.

A growing population directly influences the housing industry and, ultimately, the property tax base. As indicated by the following chart, a significant trend in the number of housing starts has prevailed for the past several years and is expected to continue into the near future, although on a more moderate level. It is important to note that Round Rock's extra-territorial jurisdiction (ETJ) contains over 9,000 acres of undeveloped property which will influence the demand for City services into the future.

**Residential Building Permits**

Year	Building Permits	Monthly Average
1999	2,163	180
2000	2,460	205
2001	1,722	143
2002	1,401	117
2003	1,354	113
2004	1,317	110
2005	1,332	111
2006	1,403	117
2007	859	72
2008	380	32
2009 (projected)	500	42

Information regarding current employment levels of major local companies is provided by the chart below. Job creation in terms of basic jobs, those that import capital while exporting products or services, has been strong over the past several years.

**Jobs in Round Rock****Major Employers**

Recent years' retail activity in Round Rock has seen strength and expansion including the opening of Round Rock Premium Outlets in August 2006. The outlet center provides over 430,000 square feet of retail space containing 130 stores in an outdoor village setting, a movie theater and a planned hotel. From 5 to 7 million shoppers are expected to visit the outlet center annually. Swedish furniture maker IKEA also opened its third Texas store in Round Rock in November 2006. In September 2008, REI opened a major retail store joining the other retail stores and helping to further anchor the retail hub. These major retail destinations located in north Round Rock on Interstate 35 provide continued expansion and diversification of Round Rock's economy.

Round Rock has historically been successful in attracting successful global leaders in the high tech industry. KoMiCo, a multinational corporation based in Korea and a Samsung contractor, recently opened their doors in Round Rock. Within the next four years, they are expected to bring 120 jobs to the community.

Round Rock is also continuing to see significant growth in the medical industry. St. David's Round Rock Medical

Center, originally constructed in 1983, completed a \$58 million expansion in April of 2006, which almost doubled its size. In addition to the new patient tower, the expanded facility includes a full-service cardiovascular center and new intensive care unit. Since 2000, the hospital has spent approximately \$98 million on renovations and facility expansions.

Scott & White, a major regional health care organization, has expanded its operations in Round Rock by developing an \$81 million Scott & White University Medical Campus in north Round Rock. This complex includes a Scott & White Clinic and private physician medical office building which opened in October 2006 and a 76-bed hospital and diagnostic center which opened in the summer of 2007.

The Seton Family of Hospitals opened Seton Medical Center Williamson in the spring of 2008. The 360,000 square foot facility was constructed on 74 acres in north Round Rock. The facility is state-of-the-art in design, technology and delivery of complex care. The first phase of the campus includes a 181-bed hospital, ambulatory surgery center and a diagnostic and imaging center. It also includes the first of several medical office buildings. The medical center will be a hub for new major growth and economic development in the region. In the initial years of operation, the medical center will generate more than 1,400 new jobs and provide an estimated total positive economic impact of more than \$190 million.

The City recognizes that a highly educated workforce is an important component of a well-rounded economic foundation. The City was instrumental in successfully obtaining state legislation for funding of the first permanent building for the Round Rock Higher Education Center (RRHEC) in northeast Round Rock. The campus opened in the fall of 2005. In conjunction with Texas State University-San Marcos, it is anticipated that the new campus will become a full-service college including a planned nursing school strategically located in close proximity to the growing health care facilities in north Round Rock.

The state legislature has set aside funds for Texas A&M University System Health Science Center to build a clinical campus in Round Rock. Construction on the first phase of this project is scheduled to begin in the summer 2008 and completed in the fall 2009. The first building is expected to be about 134,000 square feet and will include both educational space and clinical facilities. The Health Science Center's new campus is expected to provide clinical training for third- and fourth-year medical students, who, for the most part, will have spent their first two years at the College Station campus of Texas A&M. It is anticipated that the students will do clinical rotations among Round Rock's three hospitals.

In May 2008, Round Rock citizens voted to join the jurisdiction of the Austin Community College (ACC). Round Rock residents will pay taxes of 9.58 cents per \$100 of assessed property value to support the college. The district will build the campus in northeast Round Rock which will eventually accommodate approximately 12,000 students. This move will also allow ACC to double its nursing program, and will open the door to develop its new health science and hi-tech center.

Job growth is the primary factor that influences population growth in and around the community. Other factors, such as the desire to live near the place of work and quality of life, attract new residents. The chart opposite projects the changes in population for the City.

## City of Round Rock Population Projections

Year	Population	Year	Population
1999	53,860	2005	84,200
2000	61,136	2006	88,500
2001	66,495	2007	90,100
2002	71,275	2008	93,700
2003	75,402	<b>2009</b>	<b>97,500</b>
2004	79,850	2014 (est.)	103,300

## Revenue Assumptions

Revenue assumptions in general for the ensuing fiscal year are expected to follow the growth curve of job creation, population growth, retail sales activity and housing starts. Other revenues, such as property tax revenue and sales tax revenue, are forecast using or specific calculations as discussed below. Detailed figures for the following revenue sources are found at the **Revenue Estimates Tab** section of this document.

## The Property Tax Rate and Property Tax Revenue

The total certified value of all taxable property, as rendered by the Williamson Central Appraisal District, is shown in the chart below. The certified value is 9.5% above the prior year value and again continues to reflect the strong regional economy. The certified tax roll as provided by the Appraisal District indicates the following:

	Adopted for FY 2008	Adopted for FY 2009
Total Taxable Value	\$7,417,279,787	\$8,121,902,884
Tax Rate	<b>36.522 Cents/\$100</b>	<b>36.522 Cents/\$100</b>

A calculation of the tax rate levy is provided in the **Tax Information & Levy Tab** section of this document. To fund operations, such as police services, streets maintenance, fire protection, library services, parks and recreation and debt service on outstanding debt, the City levies a tax on all taxable property. This budget plan maintains the tax rate of 36.522 cents per \$100 of property value, which is the same rate of 36.522 cents per \$100 as last year. Under this budget, the adopted tax rate is above the effective tax rate of 35.096 cents per \$100 of property value, which results in a tax increase. The property tax increase is necessary to help defray the anticipated decline in sales tax revenues. The City of Round Rock has a property tax rate that is among the lowest of any medium-to-large city in the state, including those cities with an additional ½ cent sales tax for property tax reduction.

In summary, the tax levy funds general operations and debt service, of which examples include,

- a) a consistent level of service in light of a growing population and increased operating expenses;
- b) full-year funding of a new police building;
- c) debt service (principal and interest payments on debt);
- d) funding for economic development;
- e) fleet and equipment replacement;
- f) computer infrastructure and support.

While attention regarding the property tax rate is usually centered on the cost to the taxpayer, it is also important to note the technical aspects of setting the tax rate. Under state law, six separate tax rates are calculated by the City's tax assessor/collector.

### **1. The Effective Tax Rate**

If adopted, this rate would provide the same amount of revenue collected last year from properties on the tax roll last year. This rate calculation requires the taxing entity to account for changes in the value of existing properties, but this rate calculation, however, is not affected by new properties.

### **2. The Maintenance and Operations Rate**

This rate is one of two component rates that make up the total tax rate. Revenue generated by this rate is used to fund general operations of the City.

### **3. The Debt Service Rate**

This rate is the second of two component rates that make up the total tax rate. This rate is set by law in an amount sufficient to generate enough revenue with which to pay the City's maturing general obligation debt.

### **4. The Rollback Rate**

Under the Rollback Rate calculation, the Maintenance and Operations component exceeds the Maintenance and Operations component of the Effective Tax Rate by 8%. This rate is the rollback rate. An adopted tax increase beyond 8% is subject to being "rolled back" by the electorate to the rollback rate.

### **5. The Proposed Tax Rate**

This is the rate considered by the City Council for adoption and which is determined to be necessary to fund operations and pay principal and interest on outstanding debt (debt service).

### **6. Sales Tax Adjustment Rate**

A voter-authorized additional ½ cent sales tax generates revenue for the City's General Fund which, by law, must directly and proportionately reduce the property tax rate. This sales tax adjustment rate is calculated by the tax assessor as a reduction to the overall property tax rate.

A summary of the proposed tax rate calculation is provided in the **Tax Information & Levy Tab** section of this budget.

### **Sales Tax Collections**

The City's economy generated approximately \$68.1 million in sales tax revenue for fiscal year 2007-2008. This amount includes the ½% or \$17 million in additional sales and use tax for transportation improvements as described below. The remaining 1½% generated approximately \$51.1 million for general operations, property tax reduction and capital projects. This figure is 2.3% below the original budget and 1.2% below the prior year actual collections. For 2008-2009, the budget is \$49,025,000 in sales tax revenue for operations, property tax reduction and capital projects, a 4.1% decrease from FY 2007-08 actuals.

The sales tax revenue source is extremely important to the City in that it reduces property taxes and makes up approximately 57% of the general revenue. A graphic illustration of the City's sales tax revenue performance is shown in the City Profile Tab section following this letter. The sales tax as a revenue figure is subject to economic cycles and discretionary buying characteristics of the consumer and, accordingly, must be monitored and projected carefully. This is especially important now due to reduced sales tax performance.

### **Financial Management Policy**

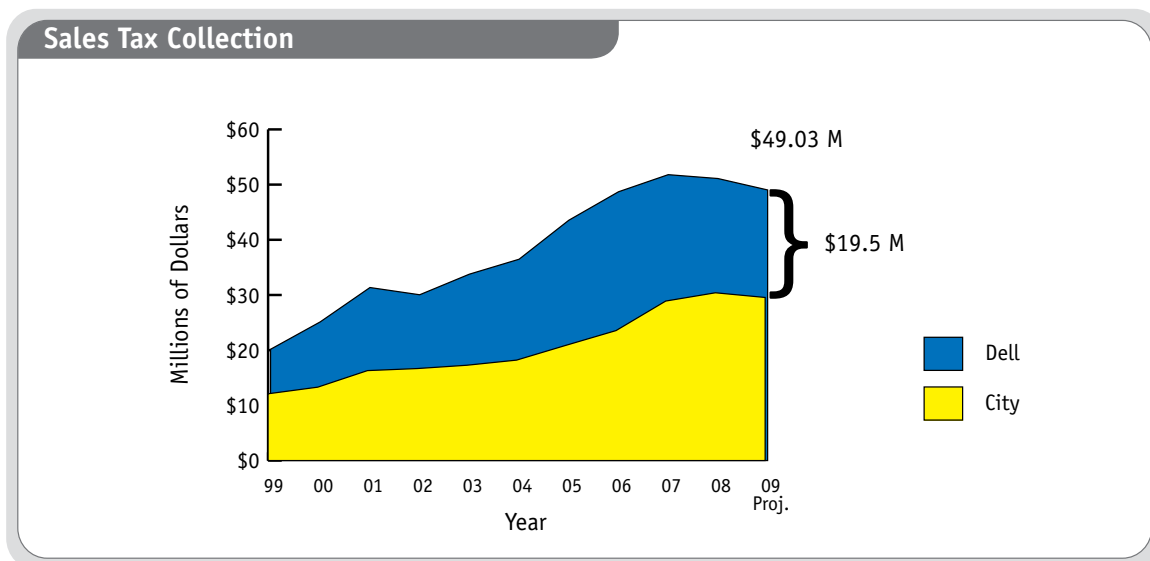
Because of the significant reliance on sales tax, the City has developed a financial management policy directed at reducing the General Fund's operational reliance on sales tax generated from Dell, Inc. The policy is designed to provide a consistent, long-term approach for the fiscal management of the City's operating funds to balance revenue requirements with the service needs of a growing population. Specifically, the policy is intended to help the City avoid the risk of a combined high property tax rate and a high reliance on sales tax. The policy is designed to better manage the continued operational reliance on sales tax generated from Dell by limiting the amount of Dell sales tax used to fund continuing general operations. The policy states that Dell must remain 50% or less of total sales tax revenue used for operations and that the estimated growth in sales tax collections from Dell must be at least 1% below the estimated growth of sales tax from all other sources. Amounts collected beyond the set operational limitation are set aside for two objectives: (1) to fund capital improvements and/or one-time expenditures as approved by the City Council to minimize the need to borrow additional funds and/or; (2) to retire existing general debt. In the long-term, this policy is expected to help manage the City's property tax rate as well as maintain financial flexibility.

The FY 2008-09 adopted budget is in compliance with the City's financial management policy. The amount of sales tax generated by Dell budgeted for operations is 40% of the total amount of sales tax used for operations. Additionally, this budget contains \$921,000 designated for the City's capital improvement program.

#### **Economic Development Agreement with Dell, Inc.**

This budget continues to reflect activity of a multi-year economic development agreement between the City and Dell. The City and Dell, a Fortune 500 company and one of the largest computer manufacturers in the world, have developed a revenue sharing agreement whereby sales tax generated by taxable computer sales within the state are shared by the Company and the City.

Sales generated from the Dell Round Rock operations are expected to produce \$19.5 million next year in local sales tax revenue. The City shares a portion of the proceeds with the Company and the remainder is used toward citywide property tax rate reduction, general expenses and capital improvements. The chart below shows the relative impact of sales taxes paid by Dell on the City's total sales tax receipts. Budgetary details of the agreement are reflected in the Sales Tax Revenue line item and the Economic Development section of the General Services Department.



#### **Additional Sales and Use Tax for Transportation System Improvements**

In August of 1997, voters authorized the adoption of an additional sales and use tax within the City at the rate of one-half of one percent, with the proceeds thereof to be used for streets, roads, drainage and other related transportation system improvements, including the payment of maintenance and operating expenses associated with such authorized projects. The additional sales and use tax became effective January 1, 1998. The additional revenue is not part of the City's general operating budget, but is budgeted and spent by a non-profit industrial development corporation established expressly for the above purposes with the approval of the City Council. The Corporation's activities are included in the City's audited financial statements as a blended component unit. Some of the funds under this purpose will be matched with State funds for improvements, benefiting the City and maintained by the State of Texas. Other projects will be constructed and maintained by the City. Future operating budgets will reflect the maintenance impact of these completed projects. All sales tax figures presented or discussed as benefiting the General Fund are net of (i.e. exclude) the additional sales and use tax for transportation system improvements.

#### **Franchise Fee Revenue**

Franchise fee revenue represents a significant portion of the City's general revenue. Franchise fee revenue is derived from major public utilities operating within the City and is intended to reimburse the City for use of public streets and rights of way. The fee is primarily applicable to electric utilities, gas utilities, telecommunications providers, cable providers and all commercial garbage haulers. The fee is generally computed as a percentage of gross receipts and the percentages vary among the franchisees. The franchise fee revenue growth is expected to reflect population and commercial development growth rates.

### **Licenses, Permits and Fees**

Revenues from these categories are intended to cover the costs of general governmental services such as building inspection, plat recording and consultation, subdivision review, site plan fees to assist in recovering costs associated with the development review process, and other various services. No significant changes are anticipated for these revenue sources. This budget also contains estimates for new fire inspection fees for commercial construction to insure code compliance through several stages in the construction process.

### **Garbage Fees**

Residential garbage pickup services are provided to the citizens of Round Rock by Round Rock Refuse through an agreement with the City of Round Rock. The City retains 20% of the monthly pickup fee for billing and collection and account maintenance. That figure is reflected in this revenue section and is expected to increase consistently with the rate of growth. As a direct result of higher fuel costs, garbage service fees were increased by \$.81 per month, effective summer 2008, which is reflected in this adopted budget.

### **Fire Protection Fees**

In 2006, voters in the City of Round Rock extraterritorial jurisdiction (ETJ) voted to form Emergency Services District #9 (ESD) for the purpose of providing fire and medical emergency services to the ETJ. The ESD has contracted with the City of Round Rock to provide these services to certain areas of the ESD. These areas include areas the City previously serviced under contractual agreements with individual municipal utility districts. The fees are included in the current budget and are intended to offset the costs of providing fire and emergency service for the ESD.

### **Police Department Fines and Costs**

Revenue in this category is produced through the payment of citations, warrants and court costs. The citations issued by the Police Department are processed through and collected or adjudicated by the Municipal Court. Although the Police Department continues to expend significant resources on Community Oriented Policing (COP), which focuses on identifying root causes of crime rather than symptoms, revenues are anticipated to increase due to population growth and increased focus on traffic law enforcement.

### **Recreation Program Fees and Recreation Center Fees**

The City owns and operates the Clay Madsen Recreation Center, a full service athletic and recreation facility. The center generates significant revenue through annual use fees and various programming fees. These fees help to partially offset the costs of operating the center. Fees are estimated by anticipating membership activity and recreation program usage.

### **Capitalized Lease Proceeds and the Lease/Purchase Program**

The City acquires a significant portion of its durable, operating equipment through a tax-exempt lease/purchase program. The equipment is budgeted at \$750,000 for FY 2008-09 and is purchased by the City and financed over a period of three years by a qualified leasing company. The program enables the City to take advantage of low cost tax-exempt financing. The lease/purchase program financing is recorded in the General Fund through the account "Capitalized Lease Proceeds". Servicing of the lease payments is recorded in the Debt Service Fund. Funding for the lease payments is calculated in the debt component of the tax rate.

### **Utility Fund Transfer**

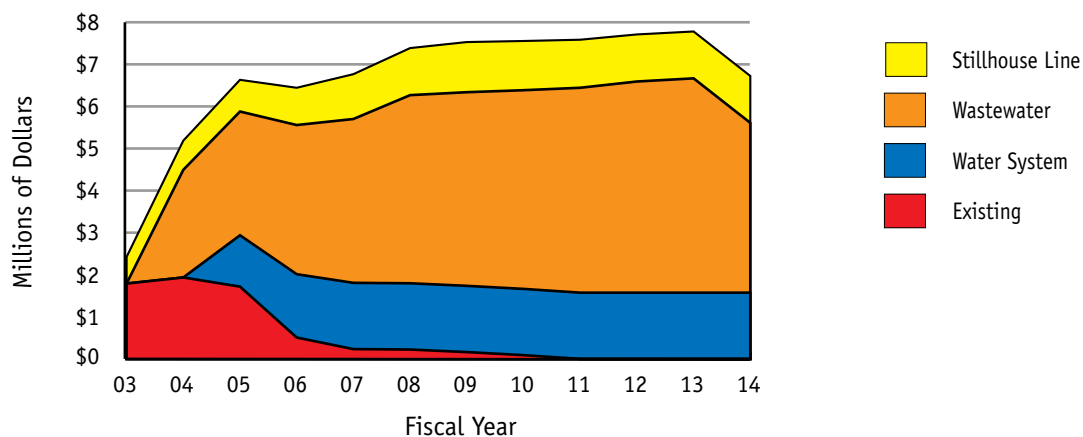
The transfer from the Utility Fund to the General Fund is \$1,690,000 and represents approximately 4.7% of the Utility Fund's revenues. The transfer is designed to reimburse the General Fund for services that fund provides to the Utility Fund such as office space, financial services, administrative services, engineering services, infrastructure repair, information technology and various other services and benefits.

### **Water/Wastewater Utility Rates and Revenue**

The Water and Wastewater Utility operations are funded primarily through user fees. The City's growing customer base and recent summer seasons have placed the City's water utility system under a substantial test as the effects of increased population continued to create a high demand for the delivery of potable water and treatment of wastewater. However, the City's utility infrastructure and service delivery systems have been carefully planned and have sufficiently met demand.

To continue to meet the projected service demands of existing and new customers, the Water and Wastewater Utility System faces a significant capital improvement program. This program is discussed more fully in the Water/Wastewater Capital Improvements Section of this message and in the **Capital Projects Funds Expenditures Tab** of this document. To summarize, the capital program requires expenditures of approximately \$103.1 million from 2005 to 2010 for water system improvements. For this same time period, wastewater improvements constructed by the City will require \$24.9 million. The combined capital program for this time period totals \$128 million and is to be funded through utility rates, impact fees and funds borrowed by the City and the Lower Colorado River Authority/Brazos River Authority Alliance (the Alliance). The borrowed funds will be repaid over time from the water and wastewater user fees and impact fees (discussed below). The graph shown below illustrates the multi-year growth in cost to service the existing and proposed debt issuances.

#### Proposed Water/Wastewater Debt Service



The City completed an update to its comprehensive utility rate study in 2006. Findings from the study indicated the water/wastewater utility to be in good financial health. However, in order to fund the capital improvement program and to meet increasing system demand and operational cost pressures, multiple-year rate increases will be necessary. This budget includes an average 5.8% utility rate increase effective in January 2009. Even with the rate increases, Round Rock water and wastewater rates continue to be among the lowest in the region.

Growth in the customer base and the rate adjustment discussed above has been factored into the projected water sales of \$18,138,000. The City provides treated water to a variety of retail and wholesale customers (those defined as metered connections). For the fiscal year 2007-2008, the customer base increased to 31,899 and gallons of water sold are expected to reach 5.8 billion. The number of utility customers is projected at 32,380 and water sales are projected at 5.5 billion gallons for next fiscal year. Water sales are conservatively estimated using customer base projections, while at the same time taking into account adverse weather conditions.

#### Industrial Pre-Treatment Surcharge

This revenue is derived from a program mandated by the federal government and administered by the City. The program is intended to fund the monitoring and treatment of non-domestic (commercial and industrial) waste discharges.

#### Water/Wastewater Impact Fees

Water and wastewater impact fees are collected for all new residential and commercial connections to the City's utility. Currently, the fees are \$4,296 per LUE (living unit equivalent) for water, and \$1,306 per LUE for wastewater. These fees are designed to help offset the cost of serving new connections to the utility system, and, under the

authority by which these fees are collected, the fees are restricted in their use. Specifically, impact fees the City collects are set aside for designated utility projects and may also be used toward current debt service on existing facilities, which serve new connections. The City is in the process of updating the Utility Master Plan and the impact fees required.

### Personnel and Compensation

#### Personnel

The City currently supports a staff of 829 full-time equivalent (FTE) positions allocated among the operating departments. This employment level will be increased by 9 full-time equivalent positions in this adopted budget.

New job positions created in this budget for the upcoming year are presented below and additional details can be found in the operating department budgets.

Department	FTE	Position Classifications
Police	2	Police Officers
	2	Telecommunications Operators
Parks & Recreation	2	Parks Maintenance Workers
Eng & Dev Services	1	Planning Technician
Utilities Administration	1	Water Conservation Coordinator
Environmental Services	1	Senior Laboratory Analyst
Total	9	

#### Personnel Compensation

This budget allocates approximately \$1 million of current payroll for employee performance based compensation increases to be implemented throughout the year.

#### Texas Municipal Retirement System (TMRS)

The City provides pension benefits for all of its full-time employees through the state-wide Texas Municipal Retirement System. Along with the employee contributions, the City has allocated approximately \$5.5 million in this adopted budget for funding of future retirement benefits for employees. Several changes have been adopted by TMRS. The major changes include a change in actuarial cost methods and changing the amortization period for actuarial liabilities. The City is evaluating how these changes will affect future employer contributions to the plan.

#### Educational Assistance

In an effort to allow employees the advantage of further education, the City offers all full-time employees up to \$2,000 per year in educational assistance. This adopted budget includes \$81,000 for the upcoming year.

### New and Existing Program Highlights

This section provides highlights of programs contained in this adopted budget. For new programs, if any, specific details can be found in the documentation provided for each operating department. New programs are generally defined as a change to a current service level, or a specific new activity.

#### Economic Development Funding

With economic development identified as the City's top strategic priority, the City and the Round Rock Chamber of Commerce recently partnered to update the City's economic development plan. In accordance with this increased strategic emphasis on economic development, the economic development agreement between the City and the Chamber of Commerce was also updated and enhanced. This budget continues funding of the Chamber of Commerce at \$480,000 for economic development. These funds will be leveraged with the Chamber of Commerce Momentum funding to create a public/private partnership for economic development priorities.

#### Police Services

The police department budget includes funding for two new police officers and two civilian telecommunication operator positions. This staffing level will allow the department to continue to meet the needs of our community as well

as the staffing strategies set forth in the comprehensive 10-year strategic operating plan. These civilian positions will continue to help reduce the commissioned officers' administrative time. Also included in this budget are the operating expenditures related to the new, 123,000 square foot police headquarters which opened in April 2008.

### **Fire Services**

In 2005, the City contracted with Management Advisory Group (MAG), a nationally recognized fire service consulting firm, to perform a comprehensive review of the City's fire service. The results of this study identified several areas of focus to improve overall fire service to the community. This budget represents implementation of the City's fire strategic plan to ensure fire services are available to the growing community while managing the long-term fiscal impact. This adopted budget includes operational expenses for a total of seven fire stations, the newest of which opened in November 2007. Fire department personnel total 129 full-time equivalent staff members.

### **Parks and Recreation Services**

The City continues to invest significant funds in Old Settler's Park (OSP) - Round Rock's 600-acre recreational and sports park facility. In 2007, the City issued certificates of obligation to fund the construction of the sports complex. The debt service on those bonds is included in the adopted budget. Two new Parks Maintenance staff and additional equipment for the upkeep of new Athletic Fields at the Old Settler's Park complex are included in this budget, as well as funding for the maintenance of the City's park system and funding to provide programs and special events for the community's enjoyment.

### **Engineering and Development Services**

Included in the 2008-2009 budget is the funding for the Storm Water Management Program, which involves coordination and oversight of the state-mandated Municipal Separate Storm Sewer System permit. As part of this permit, the City is required to provide or insure public education and outreach, public involvement and participation, illicit discharge detection and elimination, pollution prevention, construction site storm water runoff control and post-construction runoff control. To help implement this program, a new full-time Planning Technician will be added to the department's staff.

### **Street Maintenance Programs**

The City continues to invest resources in its street maintenance programs to improve the traffic flow and personal mobility for citizens. The seal coat program was formalized several years ago and is funded with general government funds. It provides a seal coat overlay on streets on a scheduled priority list. The program is a response to the growing traffic activity in the community and is designed to achieve the maximum physical and economic life out of the City's residential streets. The program is continued this year and is partially financed through the commercial garbage franchise fee. In this budget total funding for the program is approved at \$3,425,800 a \$292,765 increase over the previous year.

### **Equipment Replacement Program**

The City has progressed in the design and implementation of an equipment replacement program. Funding is approved in this 2008-2009 budget plan for continuation of the program. Equipment designated for replacement meets replacement criteria of a) old age, b) high mileage and c) cumulative repair costs in excess of the equipment market value. Maintaining the schedule of replacement is instrumental in moderating the City's overall fleet maintenance costs. Equipment funding is contained within the capital outlay section of each operating department.

### **Maintenance of City-Owned Buildings**

The City has a substantial investment in buildings, plant and equipment. This budget provides additional funding for the repair and maintenance of City facilities. We expect that the activity in this area will preserve the City's investment in property and will keep long-term maintenance costs moderate as well as provide energy management cost savings.

### **Agency Requests**

Funding requests from non-profit organizations and agencies, which serve citizens of the community in various ways, are included in this budget. These various agencies provide very important services to the community. The City utilized an internal funding review process to determine funding priorities and provide regular monitoring of agency performance. Current funding for the agencies is contained in the General Services section of the document.

### **Self-Funded Health, Dental and Vision Plan**

The City provides a self-funded health, dental and vision plan. This plan was created in 1993 in response to previously substandard services and excessive price increases from insurers. Costs of providing plan coverage have increased substantially over the past several years. However, after reviewing the marketplace and updating the plan design, the City selected another network provider and administrator for the health insurance program in 2006. Results of this change have shown cost savings over previous years. Total health plan funding is scheduled at \$6.7 million.

### **Public Transportation Services**

Historically, the City has utilized the services of the Capital Area Rural Transportation System (CARTS) to provide specialized transit services for the community. Specifically, CARTS provides transportation for the elderly and handicapped in Round Rock on a demand-response basis. Funding for CARTS services has been a combination of federal funding, state funding and minimal rider fees. As a result of the 2000 census, Round Rock was reclassified from a rural area to part of the Austin urbanized area. This reclassification resulted in the elimination of funding to CARTS for Round Rock's transit service needs and a redirection of the funding to Austin's Capital Metro system. In 2005, the City entered into an agreement with Capital Metro to access Section 5307 federal funding for its existing CARTS service in Round Rock until a long-term transportation plan can be developed and implemented. Funding for this service will be partially reimbursed through Section 5307 federal funds.

The City also recently completed a five year public transportation finance and implementation strategy. The first priority is to implement a park and ride connector express shuttle from south Round Rock to the Tech Ridge Capital Metro Park and Ride Facility in north Austin. The finance strategy includes utilizing a combination of federal and local dollars to implement the program.

### **Information Technology**

The City recently completed an agreement with Round Rock Independent School District to provide the City with access to the District's fiber optic network ring located throughout Round Rock. This fiber network will provide the infrastructure necessary to significantly improve network speed and data flow throughout City departments. This budget also provides funding for the City's ongoing computer replacement program. The City has developed a computer technology plan, which provides a systematic method to more fully automate all departments over the next few years. The City's computer automation goal is to provide a fully networked environment. Such a network will mitigate the need for large, separate mainframe systems, by providing interconnected modular component systems. As systems become fully interconnected and integrated the system users will be able to share and transfer data with greater speed, improving the efficiency of the departments tremendously. The City computerization upgrades also enable fully functional access to the Internet. This access places the City in a position of being readily able to communicate via the Internet with commercial enterprises and institutions, as well as providing citizens fast and direct access to the City's departments. This budget contains funding for this on-going plan.

These systems require highly skilled technical people to manage them and the information technology staff is very capable of managing the day-to-day operations of the system. To ensure that the IT staff is fully trained in new hardware and software enhancements throughout the City, this adopted budget provides allocated funding for staff development.

### **Utility Fund**

In an effort to keep up with growing service level demands, three new programs are being implemented as additions in the Utility Fund. The Utilities Administration department will add a Water Conservation Coordinator who will be responsible for promoting conservation to the water customers of the City through educational and outreach efforts. This department is also adding one vehicle to accommodate the staff's required duties of making off-site trips to oversee Capital Improvement projects, gather GIS data, etc. The Environmental Services department will be adding a Senior Laboratory Analyst, which is necessary to help handle the increase in the water and wastewater laboratory workload, as well as helping to monitor quality control.

### **Other Programs**

Each operating department budget contains information about all planned spending and programs.

## Water/Wastewater Utility System Operations

### Water System

As mentioned in the Water/Wastewater Utility Revenue section, the City continues to see significant growth in its residential and commercial utility customer base. The adopted budget expenditures are largely driven by the needs of a growing industrial and residential customer base as well as aging utility plants and lines. New expenditures are necessitated by the increase in water costs and additional water supply reserves as described below. Additionally, cost increases are expected in pumping costs, materials and supplies.

The Brazos River Authority (BRA) has constructed a 30 mile pipeline from Lake Stillhouse to Lake Georgetown for the benefit of the City of Round Rock, City of Georgetown and Jonah Water Special Utility District. The Brazos River Authority (BRA) owns, operates and maintains the water line. This budget continues to include capital and operating costs associated with this regional water line.

### Reserve Water

The City has water supply reserves of 18,134 acre feet from Lake Stillhouse. Additionally, through the Brazos River Authority (BRA), the City has secured water supply reserves of 20,928 acre feet from the Lower Colorado River Authority (LCRA). The additional reserves are expected to provide adequate water capacity beyond the year 2040 and the increased costs are reflected in the adopted operating budget. Round Rock also maintains an emergency water supply agreement with the City of Austin.

### Wastewater System

Like the water system mentioned above, the wastewater system costs are reflective of expansions required to meet the needs of a larger, growing population. Of particular significance this year, the wastewater treatment plant budget reflects a continuation of facilities construction and operation by the LCRA/BRA Alliance. Several years ago the City sold its wastewater treatment plants to the Alliance. The Alliance operates and expands the plants as necessary to accommodate a regional treatment approach, which currently includes the cities of Round Rock, Austin, and Cedar Park. The Fern Bluff and Brushy Creek Municipal Utility Districts are also customers of this regional system.

Costs for wastewater treatment are expected to increase each year as illustrated in the financial pro forma developed by the Alliance. These costs reflect the significant capital construction costs and increased debt incurred by the Alliance to finance plant acquisition and expansion. In addition, operating costs are increasing due to various factors such as inflation and growth. The City is closely monitoring these costs and their impacts on current and future utility rates.

While the City has transferred its wastewater plant and major collector operations to the Alliance, the City still maintains responsibility for wastewater lines maintenance. This responsibility includes maintaining and rehabilitating the City's wastewater lines in compliance with Texas Commission on Environmental Quality (TCEQ) Edwards Aquifer Regulations.

## General Capital Improvement Projects

Capital projects scheduled for the upcoming year have been funded by cash and various debt issues as detailed in the **Capital Projects Funds Expenditures Tab** section of this document. In November 2001, voters authorized the issuance of \$89,800,000 in general obligation bonds. In May 2002, a portion of this authorization, \$35,000,000 in General Obligation Bonds, Series 2002 was issued and in August 2004, \$20,000,000 in additional General Obligation Bonds, Series 2004 was issued. The balance, \$34,800,000 of the authorization, was issued in July of 2007. The projects scheduled under this voted authorization along with current projects in process are listed under the Capital Projects Funds Expenditures Tab section of this document.

## Water/Wastewater Capital Improvements

In order to keep pace with a growing population, regulatory requirements and infrastructure replacement needs, the next several years see the continuation of significant plant and infrastructure expansions and improvements to the water and wastewater systems. Scheduled improvements to the water and wastewater systems are listed in the **Capital Projects Funds Expenditures Tab** section of the document.

The scheduled improvements, which are listed, total \$128 million for the years 2005 to 2010. Out of this figure \$31.5 million is scheduled for the ensuing fiscal year. Additionally, Round Rock in partnership with the cities of Leander and Cedar Park have created the Brushy Creek Regional Utility Authority (BCRUA) to facilitate construction and operation of a regional water facility that will provide treated water from Lake Travis to the cities. This regional approach is expected to provide significant cost savings for the construction as well as economies of scale for the ongoing operations, as one plant will be designed to serve all three communities. The first phase of this project is expected to be completed by 2011 and future financial requirements of this project are incorporated in the City's utility rate planning model.

Financing for the current and future years is to be provided primarily by operating funds, capital recovery (impact) fees, and funds borrowed through the issuance of revenue bonds.

### **Bonded Debt and Debt Service**

This budget includes funding for scheduled debt service on maturing general obligation bonds, certificates of obligation, revenue bonds and contractual obligations. The debt service portion of the adopted property tax rate component is sufficient to meet debt service obligations for the next fiscal year. The debt service component of the property tax rate (discussed under the Property Tax Rate section of this letter) generates revenue to pay current maturities of all general obligation debt issues. The existing debt level combined with the scheduled current year activity will not have an adverse or limiting effect on the City's current or future operations. Substantial growth in the City's population and tax base not only requires infrastructure and capital improvements as described herein but also must provide sufficient debt financing margins. A complete schedule of outstanding debt obligations, their purpose and related debt service is included under the **Debt Schedules Tab** of this document.

The City benefits substantially in reduced interest costs resulting from recently upgraded bond ratings by Moody's Investors Service of Aa2, and Standard & Poor's of AA.

### **Hotel Occupancy Tax Fund**

The local hotel/motel industry continues to be a particularly vibrant industry for Round Rock. In 1996, the City had 2 hotels with a total of 181 rooms. At the end of May 2008, 21 hotels with 2,173 rooms were open for business maintaining solid occupancy rates. This strong industry bodes well for the hotel occupancy tax collections which support local tourism events and debt service for the Dell Diamond/Convention Center complex. To ensure continued development and success of Round Rock's tourism industry, the City and the Chamber of Commerce engaged a tourism consultant to provide a long-range tourism plan for Round Rock. The plan recommends special emphasis on sporting events resulting in new growth in the industry. With several area sports facilities in place and statewide events being planned, Round Rock has developed a marketing strategy as the "Sports Capital of Texas." Tourism is expected to become an expanded component of the City's overall economic development strategy.

To that end, the long-range tourism plan recommended the creation of a Convention and Visitor's Bureau (CVB) to administer and manage the City's tourism efforts and long-range tourism plan. The Hotel Occupancy Tax Fund budget includes funding for the CVB as well as continued funding for tourism events and debt service associated with Dell Diamond/Convention Center complex.

### **Financial Policies**

The City of Round Rock has an important responsibility to its citizens, taxpayers, ratepayers and all customers to carefully account for public funds, to manage the City's finances wisely and to plan for the adequate funding of services desired by the public. To facilitate this responsibility, certain financial policies have been developed and implemented. These policies, as itemized below, are adhered to within this budget plan.

#### **Fund Balance/Working Capital**

It is the policy of the City to maintain a General Fund balance equivalent to at least three months of operations. Working capital in the Water/Wastewater Utility Fund, net of restricted assets/liabilities is also maintained at a minimum of three months of operations. This adopted budget adheres to these policies for these funds. The Interest & Sinking G.O. Bonds Fund maintains a fund balance in compliance with federal arbitrage regulations. Balances in

excess of the above levels are earmarked for future uses or reduced to the target levels over an appropriate length of time.

With the advent of the Dell economic development agreement, the City set aside first year sales tax collections attributable to Dell sales as a hedge against future year cyclical downturns. This action had the effect of increasing the General Fund balance beyond the level discussed above and is included in the operating budget considerations.

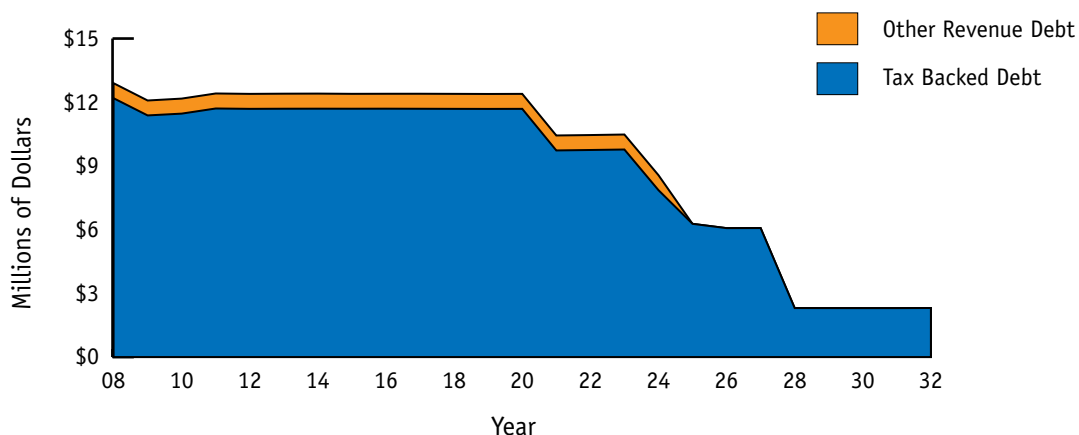
### Financial Management Policy

The City has developed a financial management policy directed at reducing the General Fund's operational reliance on sales tax generated from Dell as detailed in the sales tax collections section of this letter.

### Debt Issuance Policy

There is no direct debt limitation in the City Charter or under state law. The City operates under a Home Rule Charter (Article XI, Section 5, Texas Constitution), approved by the voters, that limits the maximum tax rate, for all City purposes to \$2.50 per \$100 assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for general obligation debt service. Assuming the maximum tax rate for debt service of \$1.50 on the January 1, 2008, certified assessed valuation of \$8,121,902,884 at 95% collection, tax revenue of \$115,737,116 would be produced. This revenue could service the debt on \$1,383,102,803, issued as 20-year serial bonds at 5.50% (with level debt service payment). However, from a practical point of view, although the City may have additional capacity to issue bonded debt, many other factors must be considered prior to a debt issuance. Certificates of obligation, revenue bonds and various forms of contractual obligations may be issued by the City without voter approval while general obligation bonds may be issued with voter authorization. The City has not established firm debt limitation policies beyond the tax rate limit mentioned above, as those policies could ultimately be detrimental to a rapidly growing community. However, prudence, need, affordability and rating agency guidelines are always important factors in the decisions to borrow money for improvements to the City.

### Principal and Interest Payment on Debt



The **Debt Schedules Tab** section of this document indicates the amount of outstanding debt the City currently has, as well as the current principal and interest payment requirements.

### Cash Management/Investments

The City's cash management and investment policy emphasizes the goals of maintaining safety and liquidity. The primary objective of all investment activity is the preservation of capital and the safety of principal in the overall portfolio. Each investment transaction shall seek to ensure first that capital losses are avoided, whether they result from securities defaults or erosion of market value. The investment portfolio will also remain sufficiently liquid to meet the cash flow requirements that might be reasonably anticipated. Liquidity is achieved by matching invest-

ment maturities with anticipated cash flow requirements, investing in securities with active secondary markets and maintaining appropriate portfolio diversification.

### Receivables Policy

All financial receivables of the City are accounted for, aged and collected at the earliest opportunity. Water, wastewater and garbage billings are due within sixteen days of the billing date. Property taxes are due by January 31 of each year. Delinquent receivables are processed expediently and collection agencies are utilized appropriately.

### Payables Policy

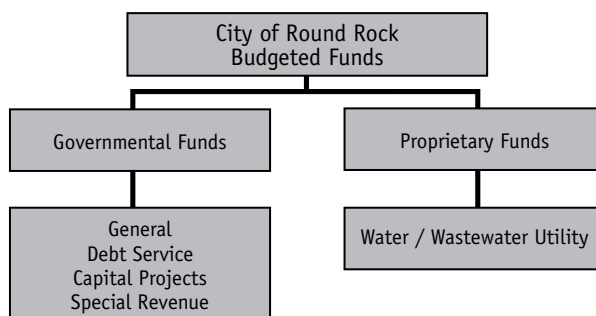
All payables for incurred expenses are accounted for, aged and paid at the latest permissible time to maximize the City's investment earning capability. All discounts are taken.

### Purchasing Policy

The City utilizes the competitive bidding process, the competitive quote process, intergovernmental cooperative buying and other prudent purchasing methods to insure that the best value is obtained for products and services.

## Summary of the City Fund Accounting Structure

As depicted in the chart below, the budgetary accounting for city financial activities is reflected within two major fund groups: Governmental funds and Proprietary funds. All funds described are governed by annual appropriations except for capital projects funds, as further discussed in this section.



### Governmental Funds

The governmental funds are used to account for general government operations and include the General Fund, Debt Service funds, Special Revenue funds and Capital Projects funds. The City utilizes a full-cost approach to budgeting all of its services, which results in significant interfund transfers.

#### General Fund

The General Fund is the most important of the funds and is used to account for all resources not required to be accounted for in another fund and not otherwise devoted to specific activities. Most of the financial transactions for the City are reported in this fund. Only one General Fund exists and it finances the operations of basic city services such as police, fire, library, transportation, parks, recreation, municipal court, community planning/development/zoning and administration. The services provided by the City are classified according to activity and presented as operating departments in the budget.

#### Debt Service Funds

This fund type is used to account for resources used to service the principal and interest on long-term debt such as general obligation bonds, revenue bonds, certificates of obligation and tax-exempt leases classified as debt.

**Special Revenue Funds**

This fund type is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The Hotel Occupancy Tax Fund is included in this document.

**Capital Projects Funds**

Capital Projects funds are typically used to account for resources restricted for the acquisition or development of major capital equipment and structures. Financing sources are usually provided by transfers from other funds, bond issue proceeds or grants-in-aid. Capital projects are generally tracked on a project-length basis. That is, upon project authorization, the required financing is not appropriated on an annual basis (or any other period-length basis) but is approved at the outset of the project. Therefore, the capital projects included in the Capital Projects Funds Expenditures Tab section of this document are presented as a memorandum to the reader.

**Proprietary Funds**

Proprietary funds are used to account for the City's activities that are similar to commercial enterprise accounting.

**Water/Wastewater Utility Fund**

This proprietary fund accounts for water and wastewater operations that are financed through rates and user fees.

Operations and activities accounted for in the funds discussed above are further organized into departments. Examples of departments include the Police Department, the Fire Department, the Water Treatment Plant Department and the Finance Department.

**Basis of Budgeting and Basis of Accounting**

All fund structures and accounting standards of the City of Round Rock are in compliance with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB) and other recognized professional standards.

*Governmental funds* revenues and expenditures are recognized on the modified accrual basis. Modified accrual basis means that revenue is recognized in the accounting period in which it becomes available and measurable while expenditures are recognized in the accounting period in which the liability is incurred, if measurable. Because the appropriated budget is used as the basis for control and comparison of budgeted and actual amounts, the basis for preparing the budget is the same as the basis of accounting.

*Proprietary fund* revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable while expenses are recognized in the period incurred, if measurable. The basis for preparing the budget is the same as the basis of accounting except for principal payments on long-term debt and capital outlay which are treated as budgeted expenses and depreciation which is not recognized as a budget expense.

**Budget Amendment Process**

Development of a spending plan during periods of economic change can reveal difficulties in accurate forecasting. Accordingly, the budget amendment process is a very important tool. If community needs develop faster or in a different way than anticipated, then the budget amendment process would be used to provide a funding and spending plan for those needs.

Once the need for an amendment has been determined, the Director of Finance and department heads develop the additional funding needs for specific projects or programs. The City Manager and Assistant City Manager/Chief Financial Officer then develop funding alternatives. The funding recommendations are presented along with the spending requirements to the City Council for consideration. Amendments to the budget require two separate readings by the City Council prior to adoption.

Budget amendments which increase the total expenditures of a particular fund are typically funded by growth related revenue, spending reductions in other areas or from cash reserves.

### Outlook for the Future

This budget communicates a tremendous amount of financial information. However, it is the staff's desire to continue the transformation of this traditional line-item budget into a more programmatic budget: a budget that clearly addresses the various programs of the City and their effectiveness.

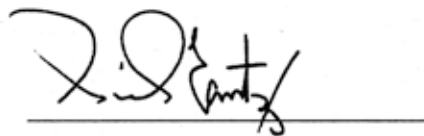
In closing, we believe this budget provides the traditional level of quality service the citizens of Round Rock expect. Attention has also been given to preservation of the City's infrastructure and development of new service programs with an entrepreneurial spirit. With the prudent strategies implemented to diversify our economic base, we envision this budget plan as a firm cornerstone in the City's future economic development.

Finally, we wish to thank all of the departments and staff members who contributed effort, time, creative wit and team spirit in the development of this plan. Special thanks are extended to members of the Finance department who contributed to this document: Cindy Demers, Jerry Galloway, Cheryl Delaney, Elaine Wilson, Sherri Crone, Pat Bryan, Chris Childs, Howard Baker, Randy Barker, Ric Bowden, Becca Ramsey, Margaret Stevens, Karen D'Amato, Carolyn Brooks, Sandi Talbert, Margie Howard, Brenda Fuller, Linda Borden, Deborah Knutson, Joan Sharp, Misty Gray, Anne Keneipp, Judy Morris, Lynn Olsen, Sylvia Willhite, Christi McAllister, Dodi Lilja, Cindy Savary, Claudia Tapia, Tameka Leonard, Diana Birdwell and Ashley Brown.

Sincerely,

A handwritten signature in black ink, appearing to read 'James R. Nuse', written over a horizontal line.

James R. Nuse, P.E.  
City Manager

A handwritten signature in black ink, appearing to read 'David Kautz', written over a horizontal line.

David Kautz, CGFO  
Assistant City Manager / Chief Financial Officer